

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LESLIE COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Leslie County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Leslie County, Kentucky.

Financial Condition:

The Leslie County Fiscal Court had total receipts of \$12,033,926 and disbursements of \$11,579,437 in fiscal year 2014. This resulted in a total ending fund balance of \$8,720,463, which is an increase of \$476,342 from the prior year.

Report Comments:

- 2014-001 The Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Receipts, Bank Reconciliations, And Payroll Procedures
- 2014-002 The Fiscal Court Lacked Adequate Physical Controls Over The County's Gravel Stockpile Resulting In Gravel Being Used For Personal Use
- 2014-003 The Jail Commissary Lacked Adequate Segregation Of Duties
- 2014-004 Documentation Was Not Available To Support Jail Commissary Disbursements

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Leslie County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in more fully in Note 1, the financial statement is prepared by Leslie County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Leslie County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Leslie County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Leslie County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules, and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 9, 2015 on our consideration of Leslie County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001 The Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Receipts, Bank Reconciliations, And Payroll Procedures
- 2014-002 The Fiscal Court Lacked Adequate Physical Controls Over The County's Gravel Stockpile Resulting In Gravel Being Used For Personal Use
- 2014-003 The Jail Commissary Lacked Adequate Segregation Of Duties
- 2014-004 Documentation Was Not Available To Support Jail Commissary Disbursements

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

July 9, 2015

LESLIE COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Jimmy Sizemore	County Judge/Executive
Kenneth F. Smith	Magistrate
Bonnell Bentley	Magistrate
Brown Sizemore	Magistrate
Russell D. Brock	Magistrate

Other Elected Officials:

Leroy Lewis	County Attorney
Billy Bowling	Jailer
James Lewis	County Clerk
Carmolita Morgan Pace	Circuit Court Clerk
Paul Howard	Sheriff
Jimmy Wooton	Property Valuation Administrator
Greg Walker	Coroner

Appointed Personnel:

Mack Muncy	County Treasurer
Nancy Roberts	Finance Officer
Serena Asher	Occupational Tax Administrator

LESLIE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

LESLIE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 861,516	\$	\$
In Lieu Tax Payments	84,367	118,321	
Excess Fees	28,392		
Licenses and Permits	80,954		
Intergovernmental	197,926	2,213,607	1,646,360
Charges for Services	3,408		29,770
Miscellaneous	49,463		142,690
Interest	435	758	14,679
Total Receipts	<u>1,306,461</u>	<u>2,332,686</u>	<u>1,833,499</u>
DISBURSEMENTS			
General Government	711,079		
Protection to Persons and Property	3,999		1,709,299
General Health and Sanitation	7,609		
Social Services			
Recreation and Culture	9,245		
Roads		2,687,580	
Debt Service			457,777
Capital Projects			
Administration	475,930	287,710	409,519
Total Disbursements	<u>1,207,862</u>	<u>2,975,290</u>	<u>2,576,595</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>98,599</u>	<u>(642,604)</u>	<u>(743,096)</u>
Other Adjustments to Cash (Uses)			
Adjustment to Prior Year Surplus		78	(1)
Payroll Revolving Account	21,595		
Transfers From Other Funds		320,628	500,000
Transfers To Other Funds			
Total Other Adjustments to Cash (Uses)	<u>21,595</u>	<u>320,706</u>	<u>499,999</u>
Net Change in Fund Balance	120,194	(321,898)	(243,097)
Fund Balance - Beginning (Restated)	868,800	1,387,726	1,173,293
Fund Balance - Ending	<u>\$ 988,994</u>	<u>\$ 1,065,828</u>	<u>\$ 930,196</u>
Composition of Fund Balance			
Bank Balance	\$ 967,688	\$ 1,065,828	\$ 930,620
Reconciled Bank Balance Payroll Account	21,595		
Less: Outstanding Checks	<u>(289)</u>		<u>(424)</u>
Fund Balance - Ending	<u>\$ 988,994</u>	<u>\$ 1,065,828</u>	<u>\$ 930,196</u>

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Budgeted Funds					
Local Government Economic Assistance Fund	Senior Citizens Fund	Flood Relief Fund	Local Government Economic Development Fund	E911 Fund	Debt Service Fund
\$	\$	\$	\$	\$ 187,378	\$ 716,219
1,381,940	109,713		3,942,513	28,196	
91				48	
186		821	917	214	372
<u>1,382,217</u>	<u>109,713</u>	<u>821</u>	<u>3,943,430</u>	<u>215,836</u>	<u>716,591</u>
14,977					150,823
73,160	90,611		10,000	299,788	
126,637			136,165		
555,931					
129,698			3,000		17,100
55,261			600		170,449
			2,008,505		
<u>488,084</u>				<u>110,669</u>	<u>175,992</u>
<u>1,443,748</u>	<u>90,611</u>		<u>2,158,270</u>	<u>410,457</u>	<u>514,364</u>
(61,531)	19,102	821	1,785,160	(194,621)	202,227
100	81	1	(1)		
458,246				300,000	
(292,432)			(1,258,246)	(28,196)	
<u>165,914</u>	<u>81</u>	<u>1</u>	<u>(1,258,247)</u>	<u>271,804</u>	
104,383	19,183	822	526,913	77,183	202,227
411,916	50,706	1,632,730	1,552,736	538,770	579,979
<u>\$ 516,299</u>	<u>\$ 69,889</u>	<u>\$ 1,633,552</u>	<u>\$ 2,079,649</u>	<u>\$ 615,953</u>	<u>\$ 782,206</u>
\$ 516,312	\$ 69,889	\$ 1,633,552	\$ 2,082,149	\$ 615,953	\$ 782,206
(13)			(2,500)		
<u>\$ 516,299</u>	<u>\$ 69,889</u>	<u>\$ 1,633,552</u>	<u>\$ 2,079,649</u>	<u>\$ 615,953</u>	<u>\$ 782,206</u>

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	<u>Unbudgeted Fund</u>	
	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS		
Taxes	\$	\$ 1,765,113
In Lieu Tax Payments		202,688
Excess Fees		28,392
Licenses and Permits		80,954
Intergovernmental		9,520,255
Charges for Services		33,178
Miscellaneous	192,672	384,964
Interest		18,382
Total Receipts	<u>192,672</u>	<u>12,033,926</u>
DISBURSEMENTS		
General Government		876,879
Protection to Persons and Property		2,186,857
General Health and Sanitation		270,411
Social Services		555,931
Recreation and Culture	202,240	361,283
Roads		2,913,890
Debt Service		457,777
Capital Projects		2,008,505
Administration		1,947,904
Total Disbursements	<u>202,240</u>	<u>11,579,437</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(9,568)</u>	<u>454,489</u>
Other Adjustments to Cash (Uses)		
Adjustment to Prior Year Surplus		258
Payroll Revolving Account		21,595
Transfers From Other Funds		1,578,874
Transfers To Other Funds		(1,578,874)
Total Other Adjustments to Cash (Uses)		<u>21,853</u>
Net Change in Fund Balance	(9,568)	476,342
Fund Balance - Beginning (Restated)	47,465	8,244,121
Fund Balance - Ending	<u>\$ 37,897</u>	<u>\$ 8,720,463</u>
Composition of Fund Balance		
Bank Balance	\$ 45,587	\$ 8,709,784
Reconciled Bank Balance Payroll Account		21,595
Less Outstanding Checks	<u>(7,690)</u>	<u>(10,916)</u>
Ending Fund Balance	<u>\$ 37,897</u>	<u>\$ 8,720,463</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Leslie County includes all budgeted and unbudgeted funds under the control of the Leslie County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds include non-fiduciary financial activities and corporations to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Senior Citizens Fund - The primary purpose of this fund is to operate the Senior Citizens Center. The primary source of receipts is from USDA federal grants received from Kentucky River Area Development District (KRADD).

Flood Relief Fund - The purpose of this fund is to account for flood repair reimbursements funded by the Federal Emergency Management Agency (FEMA).

Local Government Economic Development Fund - The purpose of this fund is to account for projects funded by Local Government Economic Development funds. The primary sources of receipts are grants received from the Department for Local Government.

E911 Fund - The purpose of this fund is to operate the E911 Communication Center.

CDBG Fund - This fund is used to process individual project receipts and disbursements, as necessary. The fund had no financial activity during the fiscal year ended June 30, 2014, and had a \$0 cash balance as of June 30, 2014.

USDA Fund - This fund is used to process USDA grant funds received for and/or passed on to other governmental entities. The fund had no financial activity during the fiscal year ended June 30, 2014, and had a \$0 cash balance as of June 30, 2014.

Debt Service Fund - The purpose of this fund is to separately account for receipts used to satisfy long term debt requirements for jail improvement projects, and other disbursements.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

E. Leslie County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Leslie County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Leslie County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

Reason for transfers:

	LGEA Fund	LGED Fund	E911 Fund	Total Transfers In
Road Fund	\$ 292,432	\$	\$ 28,196	\$ 320,628
Jail Fund		500,000		500,000
LGEA Fund		458,246		458,246
E911 Fund		300,000		300,000
Total Transfers Out	<u>\$ 292,432</u>	<u>\$ 1,258,246</u>	<u>\$ 28,196</u>	<u>\$ 1,578,874</u>

To move resources from the Local Government Economic Development Fund (LGED), for budgetary purposes, to the funds that will expend them.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt

A. Leslie County Public Properties Corporation General Obligation Improvement Bonds Series 2005

On December 27, 2005, the Leslie County Public Properties Corporation issued \$5,450,000 General Obligation Improvement Bonds, Series 2005 for the purpose of constructing a detention center. The bonds mature serially through December 1, 2035 and require annual principal payments due on December 1 with the first payment due December 1, 2007. Semi-annual payments of interest at an interest rate of 4.625% are due on June 1 and December 1 of each year with the first payment due June 1, 2007. Bonds outstanding as of June 30, 2014 were \$4,710,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 125,000	\$ 219,147
2016	130,000	213,250
2017	135,000	207,122
2018	140,000	200,763
2019	150,000	194,056
2020-2024	860,000	857,312
2025-2029	1,090,000	628,900
2030-2034	1,405,000	333,806
2035-2036	675,000	32,419
Totals	<u>\$ 4,710,000</u>	<u>\$ 2,886,775</u>

B. Leslie County Public Properties Corporation General Obligation Improvement Bonds Series 2006

On November 15, 2006, the Leslie County Public Properties Corporation issued \$1,280,000 General Obligation Improvement Bonds Series 2006 for the purpose of constructing a detention center. The bonds mature serially through December 1, 2035 and require annual principal payments due on December 1 with the first payment due December 1, 2007. Semi-annual payments of interest at a variable interest rate ranging from 4.0% to 4.70% are due on June 1 and December 1 of each year with the first payment due June 1, 2007. Bonds outstanding as of June 30, 2014 were \$1,110,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 30,000	\$ 50,560
2016	30,000	49,270
2017	30,000	47,980
2018	35,000	46,547
2019	35,000	44,972
2020-2024	205,000	198,852
2025-2029	255,000	145,644
2030-2034	335,000	77,369
2035-2036	155,000	7,402
Totals	<u>\$ 1,110,000</u>	<u>\$ 668,596</u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

C. Kentucky Area Development Districts (KADD) Financing Trust – Jail Construction Project

On October 6, 2005, the Leslie County Fiscal Court entered into an agreement with KADD Financing Trust for the construction of a new detention facility. Total principal was \$495,000 and requires annual principal payments due on October 1 beginning on October 1, 2006 for a period of thirty years. Interest payments are due semi-annually at a variable interest rate of 3.400% and 5.000% due on April 1 and October 1 beginning on April 1, 2006 for a period of thirty years. Principal outstanding as of June 30, 2014 was \$415,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 10,000	\$ 20,165
2016	10,000	19,715
2017	10,000	19,253
2018	15,000	18,659
2019	15,000	17,946
2020-2024	75,000	78,942
2025-2029	100,000	57,460
2030-2034	120,000	30,500
2035-2036	60,000	3,000
Totals	<u>\$ 415,000</u>	<u>\$ 265,640</u>

D. Changes in Long-term Debt

Long-term debt activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 5,970,000	\$	\$ 150,000	\$ 5,820,000	\$ 155,000
Financing Obligations	425,000		10,000	415,000	10,000
Total Long-term Debt	<u>\$ 6,395,000</u>	<u>\$ 0</u>	<u>\$ 160,000</u>	<u>\$ 6,235,000</u>	<u>\$ 165,000</u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$744,343, FY 2013 was \$695,160, and FY 2014 was \$648,743.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Deferred Compensation

The Leslie County Fiscal Court participated in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Payroll Revolving Account

Payroll Revolving Account – The County established a Payroll Revolving Account that is used to account for payroll and payroll related expenses for county, county clerk, and sheriff employees. The county treasurer transfers funds from the county funds and also receives funds from the county clerk and sheriff that are deposited into the payroll account. The amount of the transfers going into the account should be the amount of funds needed to pay the payroll and payroll related expenses so that the payroll account has a zero cash balance after accounting for all liabilities. The June 30, 2014 reconciled cash balance in the account of \$21,595, was added to the General Fund Balance for financial reporting purpose.

Note 8. Trust Fund/Health Reimbursement Account

Trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following trust fund:

Health Reimbursement Account - To account for county contributions to individual health accounts maintained for each employee. All Leslie County employees who meet the requirements of the Personnel Policy for eligibility for health insurance as provided by the Fiscal Court are allotted \$2,650 per year in a health reimbursement account to help offset higher health insurance deductibles, co-pays, and other expenses. As of June 30, 2014, the bank account balance was \$2,747.

Note 9. Insurance

For the fiscal year ended June 30, 2014, Leslie County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 10. Prior Period Adjustments

The Jail Fund beginning balance increased by \$504,593 from the prior year ending balance. The increase is the result of a change in presentation of the long-term debt accounts. In the prior year we reported an ending balance of \$380,757 in the Leslie County General Obligation Improvement Bonds Series 2005, \$90,294 in the Leslie County General Obligation Improvement Bonds Series 2006, and \$33,542 in the Kentucky Area Development District (KADD) Financing Trust – Jail Construction Project. The activity in these accounts has been combined with the Jail Fund during fiscal year 2014.

Note 11. Subsequent Events – Long-term Debt Refinancing

- A.** On August 28, 2014, Leslie County entered into a lease agreement in the amount of \$4,785,000, with Kentucky Association of Counties Finance Corporation with U.S Bank as trustee, to refinance the Kentucky General Obligation Improvement Bonds (Detention Facility Project), Series 2005 dated December 8, 2005.
- B.** On August 28, 2014, Leslie County entered into a lease agreement in the amount of \$1,540,000, with Kentucky Association of Counties Finance Corporation with U.S. Bank as trustee, to refinance the Kentucky Area Development District (KADD) Lease Acquisition Program Certificates of Participation, 2005 Series T dated October 6, 2005, and Kentucky General Obligation Improvement Bonds (Detention Facility Project – Phase II), Series 2006, dated November 15, 2006.

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 927,780	\$ 927,780	\$ 861,516	\$ (66,264)
In Lieu Tax Payments	64,568	64,568	84,367	19,799
Excess Fees	26,205	26,205	28,392	2,187
Licenses and Permits	94,667	94,667	80,954	(13,713)
Intergovernmental	170,563	173,697	197,926	24,229
Charges for Services	6,327	6,327	3,408	(2,919)
Miscellaneous	40,700	46,087	49,463	3,376
Interest	500	500	435	(65)
Total Receipts	<u>1,331,310</u>	<u>1,339,831</u>	<u>1,306,461</u>	<u>(33,370)</u>
DISBURSEMENTS				
General Government	712,248	801,562	711,079	90,483
Protection to Persons and Property	4,000	4,000	3,999	1
General Health and Sanitation	7,500	8,083	7,609	474
Recreation and Culture	16,000	16,120	9,245	6,875
Administration	1,266,562	1,185,066	475,930	709,136
Total Disbursements	<u>2,006,310</u>	<u>2,014,831</u>	<u>1,207,862</u>	<u>806,969</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(675,000)</u>	<u>(675,000)</u>	<u>98,599</u>	<u>773,599</u>
Net Change in Fund Balance	(675,000)	(675,000)	98,599	773,599
Fund Balance Beginning	<u>675,000</u>	<u>675,000</u>	<u>868,800</u>	<u>193,800</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 967,399</u>	<u>\$ 967,399</u>

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 122,157	\$ 122,157	\$ 118,321	\$ (3,836)
Intergovernmental	1,530,480	1,887,431	2,213,607	326,176
Interest	1,300	1,300	758	(542)
Total Receipts	1,653,937	2,010,888	2,332,686	321,798
DISBURSEMENTS				
Roads	1,665,510	2,747,217	2,687,580	59,637
Administration	1,088,427	363,671	287,710	75,961
Total Disbursements	2,753,937	3,110,888	2,975,290	135,598
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,100,000)	(1,100,000)	(642,604)	457,396
Other Adjustments to Cash (Uses)				
Adjustment to Prior Year Surplus			78	78
Transfers From Other Funds			320,628	320,628
Total Other Adjustments to Cash (Uses)			320,706	320,706
Net Change in Fund Balance	(1,100,000)	(1,100,000)	(321,898)	778,102
Fund Balance Beginning	1,100,000	1,100,000	1,387,726	287,726
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,065,828	\$ 1,065,828

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,430,659	\$ 1,430,659	\$ 1,646,360	\$ 215,701
Charges for Services	40,160	40,160	29,770	(10,390)
Miscellaneous	136,500	136,500	142,690	6,190
Interest	275	275	14,679	14,404
Total Receipts	1,607,594	1,607,594	1,833,499	225,905
DISBURSEMENTS				
Protection to Persons and Property	1,981,424	2,029,090	1,709,299	319,791
Debt Service	457,778	462,175	457,777	4,398
Administrative	726,170	674,106	409,519	264,587
Total Disbursements	3,165,372	3,165,372	2,576,595	588,777
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(1,557,778)	(1,557,778)	(743,096)	814,682
Other Adjustments to Cash (Uses)				
Adjustment to Prior Year Surplus			(1)	(1)
Transfers From Other Funds	957,778	957,778	500,000	(457,778)
Total Other Adjustments to Cash (Uses)	957,778	957,778	499,999	(457,779)
Net Change in Fund Balance				
	(600,000)	(600,000)	(243,097)	356,903
Fund Balance Beginning (Restated)	600,000	600,000	1,173,293	573,293
Fund Balance - Ending				
	\$ 0	\$ 0	\$ 930,196	\$ 930,196

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,474,020	\$ 1,474,020	\$ 1,381,940	\$ (92,080)
Miscellaneous	100	100	91	(9)
Interest	310	310	186	(124)
Total Receipts	1,474,430	1,474,430	1,382,217	(92,213)
DISBURSEMENTS				
General Government	21,977	21,977	14,977	7,000
Protection to Persons and Property	80,710	80,710	73,160	7,550
General Health and Sanitation	139,200	157,671	126,637	31,034
Social Services	714,332	733,650	555,931	177,719
Recreation and Culture	164,960	170,960	129,698	41,262
Roads	476,000	476,000	55,261	420,739
Administration	727,251	683,462	488,084	195,378
Total Disbursements	2,324,430	2,324,430	1,443,748	880,682
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(850,000)	(850,000)	(61,531)	788,469
Other Adjustments to Cash (Uses)				
Adjustment to Prior Year Surplus			100	100
Transfers From Other Funds	450,000	450,000	458,246	8,246
Transfers To Other Funds			(292,432)	(292,432)
Total Other Adjustments to Cash (Uses)	450,000	450,000	165,914	(284,086)
Net Change in Fund Balance	(400,000)	(400,000)	104,383	504,383
Fund Balance Beginning	400,000	400,000	411,916	11,916
Fund Balance - Ending	\$ 0	\$ 0	\$ 516,299	\$ 516,299

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

SENIOR CITIZENS FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 98,961	\$ 98,961	\$ 109,713	\$ 10,752
Total Receipts	98,961	98,961	109,713	10,752
DISBURSEMENTS				
Protection to Persons and Property	112,800	117,000	90,611	26,389
Administration	16,161	11,961		11,961
Total Disbursements	128,961	128,961	90,611	38,350
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(30,000)	(30,000)	19,102	49,102
Other Adjustments to Cash (Uses)				
Adjustments to Prior Year Surplus			81	81
Total Other Adjustments to Cash (Uses)			81	81
Net Change in Fund Balance	(30,000)	(30,000)	19,183	49,183
Fund Balance Beginning	30,000	30,000	50,706	20,706
Fund Balance - Ending	\$ 0	\$ 0	\$ 69,889	\$ 69,889

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

FLOOD RELIEF FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 1,100	\$ 1,100	\$ 821	\$ (279)
Total Receipts	1,100	1,100	821	(279)
DISBURSEMENTS				
Administration	1,633,840	1,633,840		1,633,840
Total Disbursements	1,633,840	1,633,840		1,633,840
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,632,740)	(1,632,740)	821	1,633,561
Other Adjustments to Cash (Uses)				
Adjustments to Prior Year Surplus			1	1
Total Other Adjustments to Cash (Uses)			1	1
Net Change in Fund Balance	(1,632,740)	(1,632,740)	822	1,633,562
Fund Balance Beginning	1,632,740	1,632,740	1,632,730	(10)
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,633,552	\$ 1,633,552

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 3,275,000	\$ 4,082,943	\$ 3,942,513	\$ (140,430)
Interest	1,115	1,115	917	(198)
Total Receipts	<u>3,276,115</u>	<u>4,084,058</u>	<u>3,943,430</u>	<u>(140,628)</u>
DISBURSEMENTS				
Protection to Persons and Property		10,000	10,000	
General Health and Sanitation	149,209	309,427	136,165	173,262
Social Services	1,217			
Recreation and Culture		3,000	3,000	
Roads		600	600	
Capital Projects	2,802,290	3,992,905	2,008,505	1,984,400
Administration	582,130	26,857		26,857
Total Disbursements	<u>3,534,846</u>	<u>4,342,789</u>	<u>2,158,270</u>	<u>2,184,519</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(258,731)</u>	<u>(258,731)</u>	<u>1,785,160</u>	<u>2,043,891</u>
Other Adjustments to Cash (Uses)				
Adjustment to Prior Year Surplus			(1)	(1)
Transfers To Other Funds	<u>(1,250,000)</u>	<u>(1,250,000)</u>	<u>(1,258,246)</u>	<u>(8,246)</u>
Total Other Adjustments to Cash (Uses)	<u>(1,250,000)</u>	<u>(1,250,000)</u>	<u>(1,258,247)</u>	<u>(8,247)</u>
Net Change in Fund Balance	(1,508,731)	(1,508,731)	526,913	2,035,644
Fund Balance Beginning	<u>1,508,731</u>	<u>1,508,731</u>	<u>1,552,736</u>	<u>44,005</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,079,649</u>	<u>\$ 2,079,649</u>

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	E911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 183,794	\$ 183,794	\$ 187,378	\$ 3,584
Intergovernmental			28,196	28,196
Miscellaneous			48	48
Interest	500	500	214	(286)
Total Receipts	184,294	184,294	215,836	31,542
DISBURSEMENTS				
General Government	348,920	365,823	299,788	66,035
Administration	645,374	628,471	110,669	517,802
Total Disbursements	994,294	994,294	410,457	583,837
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(810,000)	(810,000)	(194,621)	615,379
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	300,000	300,000	300,000	
Transfers To Other Funds			(28,196)	(28,196)
Total Other Adjustments to Cash (Uses)	300,000	300,000	271,804	(28,196)
Net Change in Fund Balance	(510,000)	(510,000)	77,183	587,183
Fund Balance Beginning	510,000	510,000	538,770	28,770
Fund Balance - Ending	\$ 0	\$ 0	\$ 615,953	\$ 615,953

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

DEBT SERVICE FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 873,862	\$ 873,862	\$ 716,219	\$ (157,643)
Miscellaneous		100,131		(100,131)
Interest	585	585	372	(213)
Total Receipts	874,447	974,578	716,591	(257,987)
DISBURSEMENTS				
General Government	97,920	374,797	150,823	223,974
Recreation and Culture		67,100	17,100	50,000
Roads		200,000	170,449	29,551
Administration	893,749	449,903	175,992	273,911
Total Disbursements	991,669	1,091,800	514,364	577,436
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(117,222)	(117,222)	202,227	319,449
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(457,778)	(457,778)		457,778
Total Other Adjustments to Cash (Uses)	(457,778)	(457,778)		457,778
Net Change in Fund Balance	(575,000)	(575,000)	202,227	777,227
Fund Balance Beginning	575,000	575,000	579,979	4,979
Fund Balance - Ending	\$ 0	\$ 0	\$ 782,206	\$ 782,206

LESLIE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of General Fund Budgetary Information

The *Statement of Receipts, Disbursements, and Changes in Fund Balance-Regulatory Basis* differs from the *Budgetary Comparison Schedule* for the General Fund in Other Adjustments to Cash (Uses) and Fund Balances - Ending Balance by \$21,595 due to allocation of Payroll Account to the General Fund.

LESLIE COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

LESLIE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 483,431	\$	\$	\$ 483,431
Buildings	13,434,293	1,369,471		14,803,764
Vehicles and Equipment	1,088,993			1,088,993
Other Equipment	1,821,609	4,500		1,826,109
Infrastructure	6,126,216	1,111,958		7,238,174
	<u>\$ 22,954,542</u>	<u>\$ 2,485,929</u>	<u>\$ 0</u>	<u>\$25,440,471</u>
Total Capital Assets				

LESLIE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 50,000	10-20
Land	All	
Building	All	25-40
Other Equipment	\$ 5,000	5-20
Vehicles and Equipment	\$ 5,000	5-10
Infrastructure	\$ 50,000	5-50

Note 2. Prior Period Adjustment

The beginning balance in Other Equipment was increased by \$61,125 for voting machines that were omitted in the prior year.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Leslie County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated July 9, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Leslie County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Leslie County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Leslie County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001 and 2014-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-003 and 2014-004 to be significant deficiencies.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

County Judge's Responses to Findings

The Leslie County Judge's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The County Judge's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

July 9, 2015

**LESLIE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

LESLIE COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2014-001 The Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Receipts, Bank Reconciliations, And Payroll Procedures

The Fiscal Court lacks adequate segregation of duties over cash, receipts, bank reconciliations and payroll. These control weakness are present because the County Treasurer is responsible for preparing deposits, posting to the receipts ledger, reconciling all bank accounts, preparing monthly reports for the Fiscal Court and quarterly reports for the Department for Local Government, and performing all payroll procedures. While some compensating controls are in place, including the preparation of receipt listings by the Occupational Tax Administrator, the comparison of these listings to the Quarterly Report(s) are not sufficient to ensure that all receipts are properly recorded.

No additional procedures have been implemented to verify the bank reconciliations agree to monthly or quarterly reports, or to ensure payroll reports are accurate and are properly recorded in the disbursement ledger. Lack of adequate segregation of duties can result in misstatements and/or in accurate financial reporting that is not detected in a timely manner. To adequately protect assets, effective internal controls require separation of duties involving deposit preparation, recording of receipts, reconciling the bank account, and preparation of payroll should be separated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Compensating controls may be implemented to reduce the risks associated with a lack of adequate segregation of duties. We recommend the duties over cash, receipts, bank reconciliations and payroll procedures be separated. The Fiscal Court can also strengthen internal controls by implementing the following compensating controls:

- An independent employee could compare the listing of receipts to the Treasurer's deposits and receipt ledger. The comparison should be documented.
- An independent employee could review the Treasurer's bank reconciliations for accuracy and compare to the ending fund balances. This review should be documented on the bank reconciliation.
- An independent employee could review payroll reports prior to distribution of payroll checks. The comparison should verify amounts such as gross wages, withholding amounts, amounts transferred to the payroll revolving account, and should be documented on the applicable payroll reports.

County Judge/Executive's Response: The Leslie County Fiscal Court will implement the recommended compensating controls subject to financial and staffing limitations.

2014-002 The Fiscal Court Lacked Adequate Physical Controls Over The County's Gravel Stockpile Resulting In Gravel Being Used For Personal Use

Leslie County Fiscal Court lacked adequate physical controls over the County's gravel stockpile during Fiscal Year Ended June 30, 2014. This weakness was present because the County's gravel stockpile is located in an area where there was previously no fence or other physical controls in place to prevent unauthorized access to the gravel. The County Judge/Executive stated, approximately a year ago, he gave someone a five-gallon bucket of gravel to fill a pothole in their road. After that, County employees have caught individuals on multiple occasions loading County gravel into their trucks without authorization from the County that was presumably for private use. The County subsequently posted signs in May 2015 outside the gravel stockpile that read "ABSOLUTELY NO SHOVELING GRAVEL VIOLATORS WILL BE PROSECUTED" and hired someone to watch the gravel stockpile during evening and night hours to prevent unauthorized access. The County is also currently in the process of building a fence around the gravel that will prevent unauthorized access.

LESLIE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (CONTINUED)

2014-002 The Fiscal Court Lacked Adequate Physical Controls Over The County's Gravel Stockpile Resulting
 In Gravel Being Used For Personal Use (Continued)

County resources are paid for with taxpayer dollars and any personal use of county resources is illegal and not permitted. The Kentucky Constitution Section 171 does not permit a county to expend public funds for private purposes. Lack of adequate physical controls over the County's gravel stockpile has resulted in individuals obtaining County gravel for personal use.

We recommend the County Judge/Executive continue to monitor the gravel stockpile and implement additional physical controls as needed to ensure gravel is only removed for authorized County use. We will refer this finding to the Kentucky Office of the Attorney General for further review.

County Judge/Executive's Response: This problem has been corrected and will be monitored for continued compliance.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2014-003 The Jail Commissary Lacked Adequate Segregation Of Duties

A lack of segregation of duties existed over all Jail Commissary accounting functions. The former Jailer's commissary bookkeeper received the mail, prepared deposits, issued receipts, prepared checks and signed checks. When one employee is solely responsible for the receipt, disbursement, reporting and reconciling process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases. Adequate segregation of duties would have prevented the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. The former Jailer should have separated the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties could not be segregated due to limited number of staff or budget, strong oversight should have been provided over the employee responsible for these duties. Any compensating controls performed should have been documented. The following are examples of other controls the former Jailer could have implemented:

- The former Jailer, or his designee, could have periodically recounted and deposited cash receipts. This could have been documented by initialing the daily checkout sheet and deposit slip.
- The former Jailer, or his designee, could have periodically reviewed daily checkout sheets and compared to the receipts ledger. This could have been documented on the daily checkout sheet.
- The former Jailer, or his designee, could have opened bank statements and reviewed them for unusual items. This could have been documented by initialing the bank statement.
- The former Jailer, or his designee, could have completed bank reconciliations or reviewed the bookkeeper's bank reconciliations for accuracy. This could have been documented by initialing the bank reconciliation.

County Judge/Executive's Response: No Response.

Current Jailer's Response: No Response.

LESLIE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (CONTINUED)

2014-004 Documentation Was Not Available To Support Jail Commissary Disbursements

A review of 28 disbursements from the Jail Commissary Fund, determined sufficient supporting documentation was not available for seven disbursements totaling \$6,865. Effective internal controls would require supporting documentation for all disbursements made from the Jail Commissary Fund. The lack of adequate segregation of duties over Jail Commissary accounting functions allowed this finding to occur without detection. As a result, the former Jailer cannot provide documentation that all disbursements from the Jail Commissary Fund were to enhance the well being of inmates. The former Jailer should have improved internal controls by maintaining documentation to support all jail commissary disbursements.

County Judge/Executive's Response: No Response.

Current Jailer's Response: No Response.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM**

LESLIE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

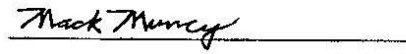
LESLIE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The Leslie County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Local Economic Development Program were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "Jimmy E. Simon", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to read "Mack Muncy", written over a horizontal line.

County Treasurer

